Preqin Private Debt Intelligence – 5/9/2016

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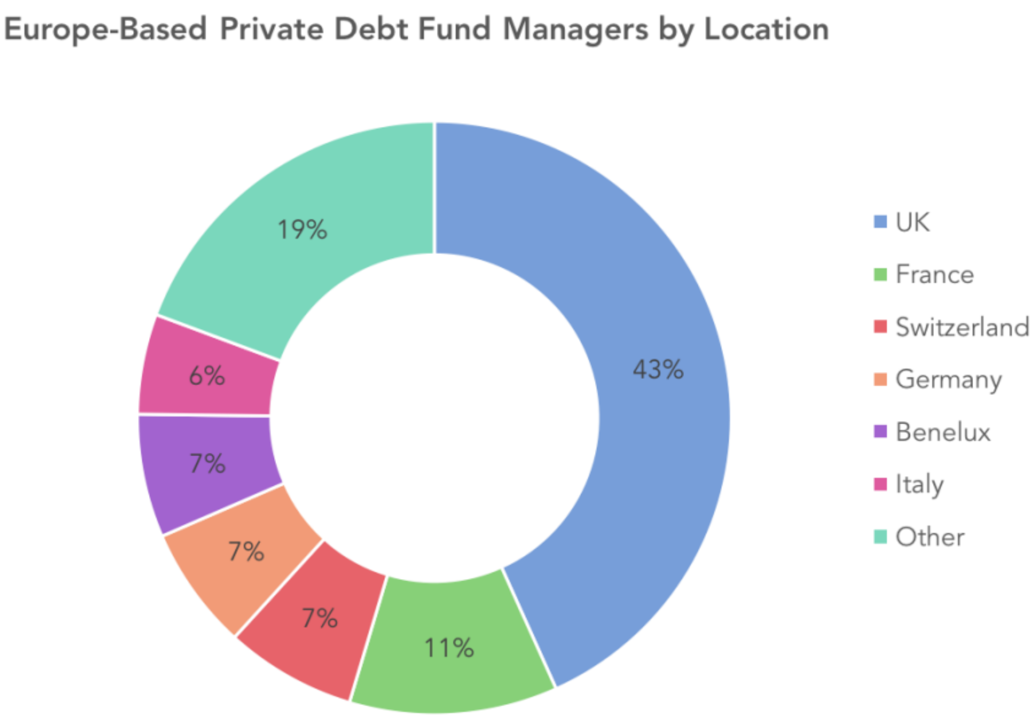
Private Debt Industry Set for Growth in Germany

Lending to Germany-based companies by private debt funds has typically been hindered by the requirement for fund managers to hold a banking license. This strict approach towards banking regulation has led a limited alternative lending market in the region; Preqin's Private Debt Online contains details for 15 Germany-based private debt funds closed since 2000, raising €2.8bn collectively. Germany-based firms represent only 7% of private debt fund managers in Europe and have raised only 4% of the aggregate European capital in the past decade. Despite having the largest economy in the currency union, Germany has fewer private debt managers than France (11%) and Switzerland (7%), and significantly fewer than the UK (home to 43% of Europe-based private debt fund managers).



Currently, many private debt fund managers in Germany use so-called 'fronting banks' to make loans – a common approach that is deemed legally compliant but inefficient and costly. However following a prolonged period of lobbying from the German private capital industry, new rules enacted at the end of March will allow private debt funds to issue loans to Germany-based companies without the need for a banking licence, as long as they are AIFMD compliant. The new legislation will also include fund managers located outside Germany, such as European Union debt funds. Fully-licenced AIFMD-compliant managers located in France or the UK, for instance, will now be able to lend to Germany-based firms without the need for a banking licence. For fund managers based outside the EU, the rules will only apply if they are fully AIFMD compliant.

According to Preqin, there are currently eight Germany-focused funds in market looking to raise a combined total of €3.1bn. However, with its more flexible approach to alternative lending, and boasting the largest economy in Europe, Germany could present managers with some strong opportunities to put investor capital to work in the future, and fundraising for the region could see increases over the short and long term.

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